



Paving the Way Forward for Rural Finance
An International Conference on Best Practices

Case Study

Surveys of Delivery Systems in Rural Finance

Case Study of DEMOS-Croatia

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(DEMOS)

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A. Introduction

1. DEMOS

DEMOS is a nationally registered Savings and Loan Cooperative, whose mission is to provide economic opportunities to those without access to formal financial services. DEMOS fulfills this mission by offering sustainable, market-oriented financial and non-financial services throughout Croatia. DEMOS aims to be recognized for fostering entrepreneurship and basing itself on the overarching principles of cooperation, trust, equality and transparency. The program is geared towards low-income clients who would otherwise not have access to credit through the formal banking system. DEMOS focuses on low-income entrepreneurs who want to start or expand their very small businesses. DEMOS' vision is to be a strong, client-focused institution fostering entrepreneurship and economic growth, and improving the quality of life of its clients. The main thrust of activity centers on the delivery of micro-credit; however, in the last year this focus has expanded to include SME lending and business development services for agriculture that strengthen market linkages and enhance business capacity.

DEMOS was founded by the ICMC (International Catholic Migration Commission), which founded two other MFIs in the region, Prizma in Bosnia and KEP in Kosovo. DEMOS as a local financial institution was registered on July 4, 2000. The relationship between DEMOS and ICMC is guided by a memorandum dated July 4th 2000. ICMC is currently in the process of transferring all assets to DEMOS.

DEMOS is regulated by the Ministry of Finance and the National Croatian Bank. It is made up of an assembly which includes all its members, most of whom are clients of the cooperative. The assembly appoints the Supervisory Board which recruits and supervises the Manager.

Although DEMOS is fully authorized to mobilize savings from its members, it has not yet done so, mainly because of low demand in the market for a savings vehicle (which is largely a result of the high volume of savings lost following the conflict as well as the bank crisis of 1998). As the banking and political situation in Croatia seems to be stabilizing, DEMOS decided in its recent 3-year strategic plan to begin exploring in the fall 2003 the option of mobilizing savings from its members.

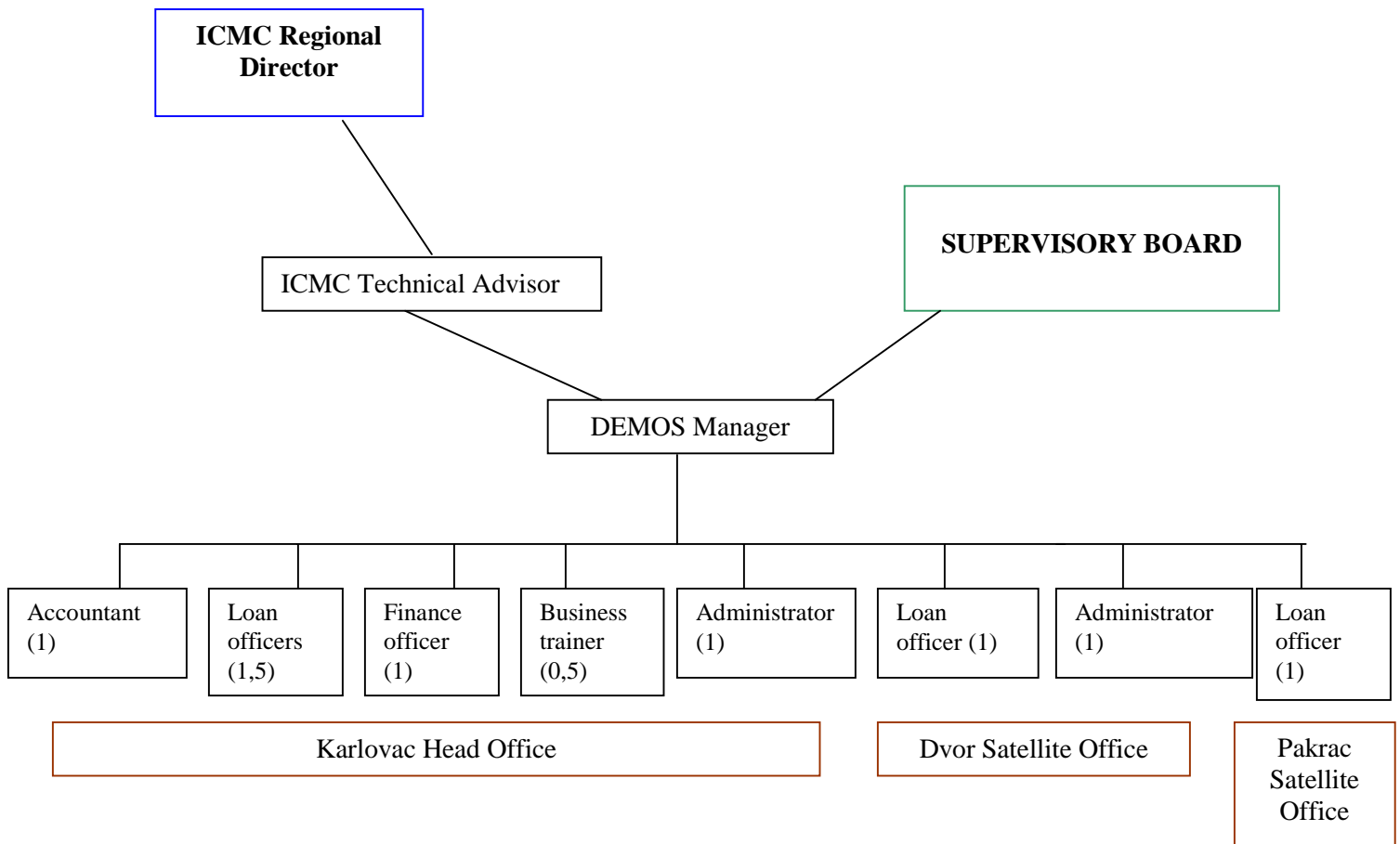
DEMOS has disbursed over 1.3 million Euros in loans to over 1,200 clients since July 2000, two thirds of whom are returnees to former war-affected areas. DEMOS has achieved an on-time repayment rate of 98% and covers 77% of its costs.

To-date, DEMOS has been entirely funded through donors and reflows. Initial funding came from the United States Bureau of Population, Migration and Returnees (BPRM), which triggered the creation of Demos in July 1999. BPRM provided a total funding of US\$ 585,000. The program's initial intent was to support the refugee return process, but approval or rejection of clients was essentially based on their needs and capacity to operate a profitable, economically viable activity. Since September 2001, DEMOS has

also received \$682,000 in funding from the USAID Economic and Community Revitalisation Activity program (ECRA), whose strategic objective is to create jobs and income for the war-affected municipalities of Croatia through community based economic programs. The conditionality of these grant programs in terms of areas of operations and procurement policies is one of DEMOS' weaknesses; thus it is a priority to diversify funding sources in the near future, and to access domestic as well as private sources such as banks and potentially to mobilize savings.

While there is fierce bank competition in the main urban areas of the country and many savings and loan cooperatives for consumer lending in smaller towns, DEMOS is the only financial provider to reach out to very remote rural locations. Currently, DEMOS is complementing its financial services with other types of business support in rural areas, as described further in this paper.

DEMOS' structure is as follows:



2. Context for Microfinance

In 1998, Opportunity International started its activities in war-affected areas by creating a Savings and Loan Cooperative called NOA, in the midst of an unstable political environment with many local ethnic conflicts. The government then was not receptive to the efforts of the international community, and this project faced many challenges and obstacles domestically.

ICMC and DEMOS began in a period of transition for the government, when the political situation was beginning to stabilize. A new parliament was elected in January 2000, which was more open to international influences and investment, if not by supporting them, at least by not obstructing them. However, in the war-affected areas, the infrastructure was destroyed, and the structure of the local economy was in shambles. More importantly, recurring ethnic tensions meant social cohesion itself was at stake. Many settlers from Bosnia were occupying houses of Serbs who had left the country during the war. Additionally, the many grant programs during the period cultivated a sense of dependency among the population affected by the conflict. However, these programs had almost entirely stopped by 2001, and donors were turning towards economic development projects, like microfinance, that had the potential to help populations return to their areas of origin. Political tensions eased significantly, and the banking sector emerged from the 1998 crisis consolidated and stronger. Nevertheless, Croatia still offers a diverse picture: while urban areas appear rather developed, rural areas are forgotten by national policy makers and still in dire need of basic infrastructure and services. This is where the core activity of DEMOS takes place.

B. Lending in rural areas

1. Background

Economic opportunities exist in agriculture, as the country remains dependent on imports for several basic products, notably meat and dairy. However in part due to its proximity with Western European countries, and Tito's unique brand of communism, Croatia's economy is already relatively sophisticated and fairly market-based, unlike many of its Eastern European neighbors. This has created more employment alternatives for people, and furthered the negative perception regarding the field of agriculture. Farming has also been made more difficult due to legal issues related to land ownership.

Since its establishment, DEMOS has continually worked to assess and gauge its targeted credit market to provide appropriate loan products. Activities began with a single group loan for all areas, but it quickly became apparent that pockets of deep poverty were concentrated in rural areas, where infrastructure was limited and employment prospects poor. DEMOS realized these areas required a specialized loan product and delivery method, so to determine how to modify its products and deepen outreach, DEMOS became the first MFI regionally to pilot test MicroSave's market research tools.

2. Loan products in rural areas

Based on the research findings, in September 2001 DEMOS designed, pilot tested and rolled out a new group loan specifically for cows as well as a loan product for other agricultural activities. The product is intended to help milk producers start/expand their businesses. Clients in rural areas respond well to solidarity groups, not only because many are returnees, but also because of the more cohesive community structure of most rural areas. To-date DEMOS has mostly disbursed loans for animal husbandry, and very little capital has gone to agricultural crops. These products were tailored to the exact price of cows on the market as requested by prospective applicants. The impact of this loan product on outreach and demand has been significant in a very short period of time. Within a few months, these loans represented a higher percentage of the portfolio, from 41% of the outstanding portfolio prior to the introduction of the new loan product to 72% after its roll-out, while portfolio at risk since then has remained between 0.8 to 0% consistently on this portfolio. The market is currently secure, given that the Croatian milk industry imports 30% of its total domestic consumption. Dairy companies have donated milk coolers to most villages and collect milk weekly, so DEMOS' clients sell on a regular basis and can preserve the milk.

Group loans are designed as follows

Clients participate in solidarity groups serving as a co-guarantee mechanism. Within a group, each client receives a loan. When choosing members for a group, individual members must understand that the entire group is liable if a member defaults on their loan. Under these circumstances, it is extremely important that clients choose trustworthy members who will not jeopardize their future access to credit.

- Group size ranges from 4-6 members.
- Groups are self-selected.
- At least 50% of the group must be women.
- Loan is to be used for individual's own or family business.
- Business risk minimized. No more than 2 members may be involved in the same type of business except for cow loans where entire communities are involved in milk.
- Business idea is viable, supported by a business plan and an independent business assessment performed by the loan officer.
- Family risk minimized. No more than 2 members may be from the same household in the same group.
- No more than 2 new community members in the same group (less than 2 years in the community).

Areas	Lending methodology	Loan Purpose	Max Loan size	Monthly Int. Rate	Grace Period	Loan term	Upfront Fee
Rural areas	Group lending	Loans for cows	1,000 EUR	1.33%	First 3 months on principal (interest to be paid)	12 months.	5%
		Loans for certified cows	1,000 - 1,600 EUR	1.33%	First 3 months on principal	12 months.	5%
		Other agricultural activities	620 EUR	1.33%	N/A	6 months.	4%

In parallel to microloans, DEMOS noticed in early 2002 that an untapped market existed for relatively larger loans in the agricultural sector. Initially DEMOS was under the belief that larger businesses had access to the well-developed banking system, but it soon became clear that this was not the case. Lack of acceptable collateral for banks and remoteness of the areas under consideration implied that while this second target group was not as poor, it still was under-served and businesses were unable to grow. DEMOS developed another loan product to serve this portion of the market, with the hope that downward linkages would be created with the existing microloan clients. The SME loan is offered up to \$12,000. This product has allowed DEMOS to retain some of its larger clients, who otherwise would have struggled to transition to a bank, or other formal lender. DEMOS has thus far substantially surpassed its targets for SME lending (6 pilot loans), and is considering making this product a core pillar of its future activity. To-date, DEMOS has disbursed 35 SME loans and is planning many more. Typical SME loans include dairy, vegetable production and pig raising entrepreneurs; in other words they are also predominantly in agricultural-related activities.

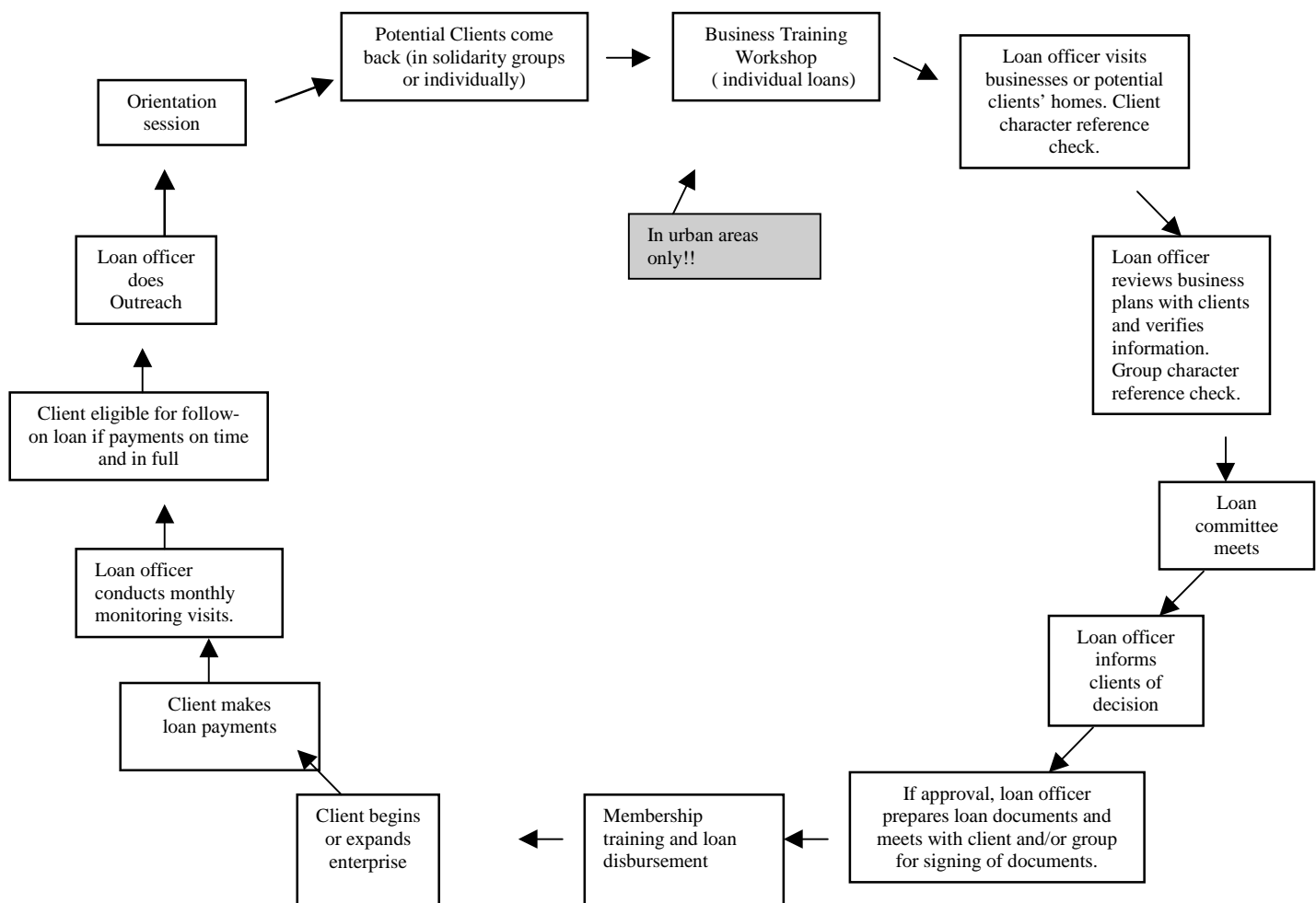
SME loans offered are as follows:

- Loan size: 2,500 - 12,000 EUR
 - Loan term: 15 months - 3 years
 - Interest rate: 14 - 8 % per year (depending on the loan amount)
- Clearly interest rates are low; this is due to market pressure from other financial institutions offering even lower rates. DEMOS' mark-up compensates for its high operating costs, which is due to its work in very remote areas.

Currently, 85 % of DEMOS' outstanding portfolio is in agriculture. DEMOS still maintains a portfolio in urban areas, but this has dropped to 15% of total outstanding. Clients in urban areas are given individual business loans, because of a higher tendency towards loan delinquency. These loans require a more stringent assessment process, business training and the provision of an acceptable form of guarantee.

3. Lending procedures

Project Flowchart



3.1 Outreach

As demand for Demos' services is predominant in rural areas, its activities and products must be tailored to this market. Thus the main challenge is clearly to fulfill microfinance best practices, while working in remote areas of low density and typically composed of a middle-age population. In these areas, the power supply system has often been destroyed as a result of the conflict, and people rarely have access to the media (radio and television in particular). DEMOS adjusts outreach to each area. The most common methods are posting and distributing leaflets, and door-to-door promotion. Village leaders often offer support in organizing orientation sessions run by DEMOS' loan officers and in helping assess each potential client. Character reference is therefore one of the most powerful tools used in delinquency prevention. Moreover, other NGOs working in the area help DEMOS identify potential clients. Outreach generally requires extensive time, and is one of the reasons why DEMOS still greatly needs to improve its efficiency. The organization went through a thorough process of timing all activities by product and by area, and realized that from the time a group loan is advertised to the time it is disbursed, it takes a loan officer 2 days of work. Of this total, outreach represents a full day, which is very high. On the other hand, outreach is facilitated by the group lending

methodology, through which clients select each other without intervention from loan officers.

DEMOS has also promoted a “client of the year,” the client who has helped identify the highest number of new clients while helping prevent and/or manage delinquency when it appears. This client is awarded a present during the assembly meeting. DEMOS is systematizing this process by developing a client referral incentive program, through which clients are regularly rewarded for finding new clients. Clients appreciate this approach, as it creates a sense of identity with the cooperative’s values.

3.2 Repayment and managing risk

Typically, DEMOS’ client population in rural areas tends to be very honest and highly responsible towards credit. This significantly eases DEMOS’ tasks. Still, given that group lending does not provide any other guarantee besides peer pressure, DEMOS is very careful during the loan approval process. This process includes several client visits, business checking, completion of a business plan and assessments of clients’ character and group cohesion. Importantly, loan officers come from the communities they manage, and know the area well. Through its 3 years of operations, DEMOS has continually refined a thorough and effective monitoring system. This system tracks potential business crises, and preempts delinquency, as well as any potential repayment consequences, should a part of the loan be diverted towards other uses besides the business. Loan officers visit each client at least quarterly, with specific monitoring.

Forms have been designed to enable management to analyze changes in the business and the household over the loan period, so that they can be the basis for a simple and rough impact analysis. To-date, clients engaged in milk production have seen their income level and assets value increase by 100 % compared to the period prior to loan disbursement (within one year). Assets have increased on average from US\$1,000 to US\$2,000 and income has gone from \$100 monthly to \$200 monthly. **The average percentage of growth in business income for all businesses supported by DEMOS (not only milk production) is about 25 %.**

3.3 Performance

Portfolio report

	<u>Active loans</u> (July 10, 2000 to March 31, 2002).	<u>Cumulative</u> <u>loans</u>
Total Number of new clients	621	1394
Number of loans disbursed in groups	488	1198
Average loan term	12 months	10 months
Average loan size first cycle clients	1,181 EUR	1,166 EUR
Number of individual loans disbursed	98	161
Average loan term	10 months	10 months

Average loan size first cycle clients (individual loans)	1,023 EUR	1,018 EUR
Number of SME loans disbursed	35	35
Average loan term	22 months	22 months
Average loan size	5,763 EUR	5,763 EUR
Total value of loans disbursed	882,535 EUR	1,591,067 EUR
Outstanding balance	530,727 EUR	

Financial performance

	Average for Year 2000	Average for 2001	Average for 2002
Number of active clients	54	295	551
Average gross portfolio outstanding	\$ 67,622	\$ 159,976	\$ 316,413
Initial loan size/ GDP per capita	20 %	22%	27%
Portfolio at risk above 1 day late	7%	12.7%	3.7%
Operating cost ratio	107 %	103 %	66%
Yield on net portfolio	13.45%	33.13%	36.78%
Operational sustainability	12.68%	32.19%	55.45%
Financial sustainability	7.74%	24.94%	43.75%
Adjusted return on assets (ROA)	-53.39%	-45.42%	-42.06%
Adjusted return on equity (ROE)	-54%	-46.27%	-65.81%

DEMOS constantly strives to improve its financial performance, as shown by the progress made in the above ratios. While DEMOS' geographic limitation makes its mission clear and its comparative advantage evident, it also drastically increases its operating costs and lowers its outreach. Additionally, DEMOS is faced with the challenge of fostering entrepreneurial spirit among a population that lived under a long period of socialism. During its recent strategic planning session, DEMOS decided to introduce new financial products, such as consumer loans, and to pursue the introduction of non-financial products (as described below) with a plan to increase its level of disbursement. Additionally, DEMOS has drastically improved its portfolio quality. In fact, it should be noted that in rural areas, on-time repayment rate is consistently at 99.87% and portfolio at risk at 0.8% given that delinquency originates mostly in urban areas.

At the end of March 2003, DEMOS reached 77% operational sustainability and 60% financial sustainability. This level is considered acceptable for MF best practices since DEMOS has been lending for a little less than 3 years. DEMOS is planning to reach full operational sustainability by the end of 2005 and financial sustainability within four years.

C. Agriculture-related Business Development Services (BDS)

While DEMOS has done well in establishing systems, controlling delinquency, and becoming relatively efficient, it must also seek alternative market channels. The key to sustainability for DEMOS lies in differentiating its services in rural areas. In this way, DEMOS is becoming a sustainable, market-oriented provider of micro-credit, and staying true to its original mandate of assisting the working poor in the rural war affected areas. Initially DEMOS provided business training to clients who applied for the first time to help them generate business ideas and gauge viability. Animal health seminars were conducted in parallel, with the help of a veterinarian. However, these services were provided free of charge, and on an ad-hoc basis. Further BDS project ideas stemmed from clients' needs and loan officer input regarding market gaps.

Given that BDS services are expensive and require expertise, DEMOS decided early on that its comparative advantage lies in the provision of credit, and that the organization would outsource most BDS services in rural areas and stay away from direct provision as much as possible in view of the available supply. In doing so, DEMOS develops critical partnerships with other BDS organizations and the private sector. DEMOS' goal in entering BDS was not only to satisfy clients' needs, but also to increase demand for loans and improve retention. Services are currently either offered for free, or factored into the loan size. This form of pricing structure may be modified at a later stage depending on the market and on the success of the current pilots. However, an added challenge for DEMOS is that in Croatia, while there is strong demand for market linkages, there has also been a tradition of donor-driven BDS provision with no cost-recovery goal.

DEMOS currently works on three BDS projects

1. Pig farming and prsut processing

In the first pilot project, DEMOS partnered with FLAG International to disburse loans for piglets to thirty farmers. FLAG will help farmers raise a certain breed to a specific weight and feeding requirements to obtain high quality pigs. The pigs will be sold to prsut processors in the South of Croatia, therefore not only sustaining farmers and processors, but also revitalizing the market linkages. The project was designed in November 2002 and implementation began February 2003.

While the South of Croatia offers great potential for smoked ham given its specific climatic requirements (strong wind in the Spring), raw materials supply is one of the largest obstacles facing Drnis prsut manufacturers. Prior to the conflict, a Drniš-based producer supplied the area with the overwhelming majority of pigs. That facility was destroyed, and producers have been forced to procure pigs primarily by importing them from Hungary, Belgium or the Netherlands. Imports are not of preferred quality. Prsut producers unanimously agree that optimal parameters for prsut production are raw materials procured from a Landrace or Duroc breed of pig that is approximately 140 kilograms in weight at time of slaughter. Despite these statements, most producers select their raw materials based solely on purchase price, with the majority of raw materials obtained from pigs of unknown origin (breed) and of 100-

kilogram weight at time of slaughter. This BDS project enables Drniš processors to procure high quality raw materials *domestically*, and simultaneously develops a long-term partnership with domestic pig farmers that will pave the way toward attainment of a geographical origin trademark for their pršut. The achievement of such status requires that only high quality domestic ingredients be used in the production process. This will add significantly to the consumer sales price of the pršut, but will require the procurement of domestic pigs (ideally from the Dvor-Pakrac area).

Loans have been disbursed to 30 pig farmers in the municipalities of Dvor, Hrvatska Kostajnica and Pakrac. Accompanying feed, veterinary and slaughter services are being provided, as well as transport to the pršut processors in Drniš. The average loan size is USD 5,360. While interest payments are monthly, the principal loan will be repaid after month 8 (at the end of the project), which is when the grown pigs will be sold to the processors (November-December 2003) in Drniš. The pršut processors have signed forward (tripartite) contracts and bank guarantees have been put in place to minimize risk to the farmers and the organizations in terms of their participation in the program. The BDS organization has employed a local staff member, as well as consultants from the Agricultural Faculty of Zagreb, to ensure that quality control standards of procurement are met. This will also minimize risks that typically exist at the beginning of such business relationships. Pig producers will gain significant benefits from the program, and will have firm market linkages with Drniš pršut producers who will provide forward contracts and guarantees on purchasing their entire pig production for the next year. The increased quality of production will help prsut producers create a brand name for their product.

The role of the organizations participating in the project is to facilitate the supply of the pigs to clients, to monitor the quality of pig raising process and to monitor the loan repayment. DEMOS loan officers have worked along side FLAG staff to select loan recipients, and tailor their business plan to this specific business activity. Loans were approved in joint loan committees and DEMOS' loan officer is visiting clients with the FLAG expert. Pigs are being delivered to clients, and monitoring will also take place in pairs to verify the state of the business and to give advice to the farmer in raising the piglets, thereby preventing loan delinquency. This project is innovative in that it intends to create market linkages among the rural, less developed areas in the North-West and in the South and to improve brand name for Croatian processors. If the pilot project is successful, a new cycle will be initiated in the coming year with a larger number of clients.

2. Facilitation of transportation

A second BDS project DEMOS has involves bringing buyers and sellers of cows together. The cost of this service is incorporated into the loan product by initiating the facilitation of the transportation of high quality cows to war-affected areas of the country, where there is a shortage of such cows for DEMOS' clients.

During the war, many cows were killed. After the war, NGOs imported significant numbers of cows to Croatia, but the recent import ban on cows from Germany and Austria caused by mad cow disease has created a new shortage of cows. Cows are available in other parts of the country, but these rural areas typically are far from DEMOS' clients. In order to determine the potential level of demand for transport of

higher quality cows, DEMOS conducted a series of 9 focus groups between December 2002 and end of January 2003 with clients and non-clients in areas where there is a shortage of cows, disaggregated by business size. Findings were conclusive and in March 2003, DEMOS signed a partnership agreement with a Croatian private company to identify and transport cows to clients.

DEMOS organizes a preliminary visit of clients to the cows that have been identified for them so that they can make a final selection. The supplier of cows has agreed to incorporate the cost of transport into its pricing structure, so clients pay a lump sum corresponding to the value of the cow, transport, and connected services. DEMOS has increased its maximum loan size to enable clients to purchase these higher quality cows, and to pay for the cost of transportation. DEMOS limits this service to clients with sufficient capacity to repay the loan without any additional grace period, the monthly payment on these cows being US\$ 30 higher for these cows. In April 2003, DEMOS selected 2 areas for the pilot test and started organizing clients so that they can select their cows. Results of this pilot test will be evaluated by the end of July 2003.

3. Improving quality of milk production

The recent changes in the agricultural law in Croatia have led to a modification of the pricing structure of the milk produced. While the price used to be based only on the percentage of fat per liter, now it will also depend on the percentage of microorganisms (bacteria) so as to encourage the production of higher quality milk. Given that higher quality milk can only be produced with milking machines, demand for such machines (and subsequent loans for them) has significantly increased. In order to meet demand and help clients obtain higher sales prices for their milk, DEMOS will pool together all clients interested in purchasing milking machines. DEMOS will then negotiate with milking machine producers a discount on the purchase of these machines ranging from 5 to 15% of the total price per machine. Currently DEMOS is reviewing the conditions offered by suppliers (prices, services, spare parts available, repair requirements) and also the amount of discount they will offer based on the quantity delivered. DEMOS will approve loans for the purchase of the machine, enabling them to get a discount on the purchase while selling milk at a higher price thanks to the newly acquired milking machines.

4. Expected impact and challenges

DEMOS' involvement in the newly designed Business Development Services (BDS) is expected to have a positive impact both on clients and the institution. On the client side, these projects aim to increase business profits, especially by improving the quality of products sold (hence the sales price per unit). This in turn will make clients more competitive on the Croatian market and potentially abroad. In addition, these projects create market linkages between different regions of the countries, building on each area's economic strength. This is especially relevant to the Prsut project with FLAG. These services have a potential to expand to the entire country, because lack of experience in running agricultural-related businesses and lack of markets are challenges that most small entrepreneurs face. These BDS projects share the prospect of becoming sustainable, given that the pig project can be expanded to other types of animal raising (sheep, goats, hens) and the milking machine project can be expanded

to other agricultural machines and equipment, depending on the possibility to get good discount for DEMOS' clients. For DEMOS, these initiatives are a way to attract new clients and to ensure that clients are satisfied with service they get so that they will grow their business and remain in the program. Higher profits are also evidently a way to ensure better loan repayment (although so far this has not been the main thrust behind the BDS initiatives given DEMOS' high portfolio quality).

The two main challenges related to the implementation of a combined credit and BDS approach pertain to the institution's capacity and to its ability to create a cost-recovery model.

While DEMOS is strong in the delivery of credit, it lacks skills and expertise in the implementation of BDS. One way to mitigate this risk is to focus on the facilitation rather than the direct provision of BDS. However, staff must still gain better understanding of certain sectors so as to identify appropriate linkages between producers and suppliers. In this respect, DEMOS and FLAG have started cross training programs and staff exchanges between veterinarians/business advisors and loan officers. Loan officers are gradually learning the essentials about certain business practices in rural areas. Additionally, one business expert from FLAG will be detached to DEMOS for an initial period of 3 months and may potentially be integrated to DEMOS. DEMOS' ultimate goal is that the skills of loan officers and business support experts can be consolidated into the same individuals so that costs will only slightly increase (marginally to the extent of a staff members' salary, which would be compensated by better results in outreach and client retention). While these programs may soon be drawing more funding for DEMOS, the institution is planning to come up with a model that will allow it to make income, not only from the loan, but also from this added service and to become less donor-driven. DEMOS is planning to use the lessons learned from the three pilot test projects to design a structural model by the end of the year that could serve a larger geographic base of the country.

5. Final Conclusions- Policy and Donor Recommendations

DEMOS has attempted to convert low demand into an opportunity and a comparative advantage with its clients. While working in war-affected areas increased costs and decreased scale, DEMOS recognized that competition was negligible, thus it is gradually becoming specialized in rural lending. Likewise, low demand has provided DEMOS with a chance to become close to its clients by listening to their needs and concerns. In so doing, it has moved into the facilitation of business development services and has developed mutually beneficial partnerships with other organizations and private companies throughout the country.

There is still much to be done for business strengthening in Croatia. At the policy level, the import ban on cows is impeding efforts made by small farmers to grow their herds. Generally speaking, the country is still very protectionist and while international organizations and consulting firms have worked with the government in support of a transition towards an open market, more needs to happen if Croatia is to join the European Union. Business taxation is very high and discourages many entrepreneurs from growing and investing.

At the country level, donors can communicate with government authorities to ensure that local and national programs are in line with BDS approaches. A challenge for DEMOS is that local and national governments in Croatia tend to offer inefficient, subsidized programs (be they credit or business support) that inherently are not sustainable but undermine the market. Donors can advocate for a new market driven approach. On a broader scale, donors can play an instrumental role in funding and fostering the development of new BDS models on a cost-recovery basis and the sharing of experiences. While there is a wealth of documentation on success stories in microfinance, little is available so far on successful BDS projects. This would be relevant to Croatia but also to other countries in the region (as an example, in Kosovo and Bosnia and Herzegovina, MFIs are realizing that microfinance alone is no longer sufficient and that other forms of support are needed for small entrepreneurs). Additionally, MFI policy makers/practitioners on the one hand and BDS actors on the other hand have typically been working in isolation. Since the future lies in the combination of financial and non-financial services, enhanced sharing between these two industries is to be encouraged and should be a priority of donors and policy makers.